

TOP SECRET

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DAILY DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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TOP SECRET

25X1

TOP SECRET

SECTION 1 (SOVIET)

1. USSR. Soviet Union reportedly suggests Scandinavian alliance: The First Secretary of the Soviet Embassy in Stockholm reportedly notified the Swedish Foreign Office on 16 November that the Soviet Union would look favorably on the formation of an independent Scandinavian defense alliance, to include Finland.

The Swedish Foreign Office has informed the diplomatic representatives of the other Scandinavian countries. [REDACTED]

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Comments: If true, this maneuver would constitute at least a formal reversal of Soviet policy, probably designed to create confusion and dissension among the Scandinavian countries. It is unlikely that Moscow actually desires the formation of an independent alliance encompassing a strategic area close to the Soviet border.

Such a suggestion by Russia would not find official support in Scandinavia or disturb the relationship of Denmark and Norway to NATO, although pro-neutralist discussion in Sweden and Denmark might be stimulated. Finland appears unlikely to abandon its consistent post-war policy of absolute neutrality between East and West.

2. YUGOSLAVIA. Financial problems deepen: According to the American Embassy in Belgrade, the Yugoslavs estimate their balance of payments deficit for the second half of the current fiscal year (January to June 1952) at 84 million dollars. This increase results primarily from mounting defense expenditures. The Embassy believes that the tripartite aid grant for January to June 1952 is not expected to exceed 50 million dollars and may possibly be as low as 45 million, leaving a significant gap between the grant and the estimated deficit.

The Embassy states that under present conditions the Yugoslavs will make a maximum effort toward defense production to the detriment of the already strained civilian economy. Yugoslavia must have additional aid to achieve economic stability, rearmament, and to be able to complete critical investment projects. Further, Embassy Belgrade indicates that the Yugoslav trade deficit cannot be balanced even with tripartite assistance in raw materials until certain capital investments are made. [REDACTED]

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Comments: A larger Yugoslav balance of payments than anticipated last June threatens the assumptions upon which tripartite aid is based

TOP SECRET

TOP SECRET

and thus foreshadows an increase in the American contribution for the second half of the fiscal year.

An uncovered trade deficit impairs tripartite efforts to induce Yugoslav creditors to agree to debt readjustments.

TOP SECRET

TOP SECRET

SECTION 2 (EASTERN)

1. GREECE. Greek Army officers fear trend to left: Greek Army officers see in recent internal developments a government trend to the left. Prime Minister Plastiras' amnesty program for political prisoners, including Communists, the seating of seven parliamentary deputies who had been exiled as Communists, the withdrawal of the British police mission, the Greek Government's pressure for abolition of the United Nations Balkan Commission, and the contemplated disbandment of the civilian Armed Defense Battalions are taken as evidence of the leftist trend. The US Military Attache in Athens adds that the Greek officers fear that the present trend will create conditions favorable to the return of Communism. [redacted]

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Comment: Greek officers, as a group, are strongly rightist in sympathy, and to them these developments probably appear more alarming than they are in fact. However, the Greek Foreign Office has information that bands of Greek Communists are preparing once again to infiltrate into Greece, and the suspension of UN border observation could increase their chances for success. The amnesty program may be greatly modified or abandoned if the ailing Plastiras disappears from the political scene.

2. EGYPT. King seeks curb on extremist "Liberation Battalions": King Farouk has directed the Egyptian Government to restrain the activities of the so-called "Liberation Battalions." The Egyptian Minister of Interior accordingly issued a public statement to the effect that all Liberation Battalions would be put under governmental control. The US Ambassador in Cairo reports, however, that subsequent violent opposition to this announcement on the part of extremist elements has apparently caused the Minister of Interior to waver in taking any further action. [redacted]

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Comment: These battalions are being formed by violently nationalistic Egyptians, including the Moslem Brotherhood, for possible use against the British. While the battalions are militarily insignificant, some leaders in the Arab world reportedly fear that unless these extremists are controlled, there is a real danger that similar groups will spring up in other Arab states to threaten the existing order.

3. TURKEY. Turkish Foreign Minister offers suggestions on how to deal with Arabs: In future approaches to the Arabs on the Middle East Command proposals, the Turkish Foreign Minister has suggested that any appearance of running after the Arab States be avoided. He also suggested that the impression should not be given that we are attempting to split the other Arab States away from Egypt, [redacted]

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TOP SECRET

TOP SECRET

As for Egypt, the Foreign Minister felt that the best tactics for the present are to leave Egypt strictly alone and that Britain should continue to stand firm as at present, acting, however, with moderation. [REDACTED]

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Comment: On the basis of many centuries of experience the Turks have a realistic understanding of how to handle the Arabs. As firm friends of the West they are in an excellent position to offer good advice.

4. SYRIA. Syria reportedly offered arms by Soviet Union: The French Foreign Office has been informed by [REDACTED] that the USSR has offered 100 planes and 50 tanks to the Syrian Government.

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Comment: It was reported on 9 November that the Syrian Chief of Staff and two high Foreign Office officials conferred for two hours with the Soviet Minister in Damascus. It was suggested [REDACTED] that the ambitious Chief of Staff had probably asked for arms and may have promised closer collaboration.

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This earlier report, as well as other data on Soviet activity in Syria, does not confirm the specific information supplied by the French. While the Russians continue to make approaches to the Arab States, they are not known to have offered to furnish arms to any of them.

5. PAKISTAN. Conference of world Moslem leaders scheduled for next January: The Acting Foreign Minister of Pakistan has announced a conference of world Moslem leaders, to be held in Karachi from 5 to 7 January 1952, to discuss inter-Islamic political, economic and cultural relations, and to make people "more Islamic-bloc minded." Those invited include the Grand Mufti of Jerusalem and Mullah Kashani of Iran. [REDACTED]

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Comment: The Grand Mufti is violently anti-Western, and Kashani is strongly nationalistic. A conference attended by them may be expected to pass a number of resolutions unfavorable to the West. Although previous Islamic conferences in Pakistan have achieved no concrete results, this one may attempt to develop a common approach to such problems as Egypt, Iran and the Middle East Command.

6. INDONESIA. Tension heightening over West New Guinea: The Indonesian Foreign Minister complained to the United States Ambassador to Indonesia that the "unfriendly" Dutch and Australian attitudes on the West New Guinea issue would force Indonesia into a neutralist coalition with India and Burma and its government into the "growing anti-Western camp" in Indonesia.

TOP SECRET

TOP SECRET

He warned that the Indonesian Parliament might denounce the relationship with the Dutch and that the present Indonesian cabinet might fall if it opposes such a move.

The US Ambassador comments that Australian and Dutch cooperation over the New Guinea dispute places the US in the center between those countries and Indonesia. He points out the set-back to long-term American policies which would be suffered if the present crisis develops along the threatened lines. [REDACTED]

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7. PHILIPPINES. Magsaysay recommends disarming of provincial governor's private army: Post-election disturbances in Negros have resulted in the murder of one and the maltreatment of several "politicos." Governor Iacson's special police are allegedly responsible. Defense Secretary Magsaysay has recommended to President Quirino that Iacson's "private army" be disarmed and disbanded. Field Comment: If Quirino approves Magsaysay's recommendation, Magsaysay will again emerge victorious in a battle with Iacson, and Quirino's prestige will be enhanced with the majority of the Filipino people. [REDACTED]

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Comment: Governor Iacson has long maintained tight control of the populous sugar province of Negros Occidental with [REDACTED] political machine. Before the election, Magsaysay dispatched a contingent of troops there to police the polls, over the governor's protest. While Quirino publicly upheld his defense secretary, he was reported to have issued orders that in fact circumscribed the troops' freedom of action.

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8. CHINA/INDOCHINA. Communists announce completion of new railroad to Indochina border: In a 31 October speech the Chinese Communist Minister of Railways stated that the Laipin-Chennankuan railway was completed, and on 7 November a newspaper in Kwangsi province, where the new railway is laid, described the official opening ceremony of this line. [REDACTED]

Comment: This strategic railroad greatly enhances the Chinese capability to support Ho's forces.

Although the Chinese assigned priority to the construction of this line, begun in the summer of 1950 and originally scheduled for completion in June 1951, work on it was repeatedly delayed by sabotage, floods and a shortage of rails.

It is not certain whether this line extends all the way to the Indochina border, since the Chinese Minister in his recent speech indicated that Pinghsiang, 10 miles north of the border town of Chennanjuan,

TOP SECRET

TOP SECRET

was the actual terminal of the line.

9. Mongolian jet pilots and "International Volunteer Air Force" allegedly at Mukden: [] report that the headquarters of the "International Volunteer Air Force" has been established at Mukden, and that on 24 October, 360 Outer Mongolian jet pilots arrived at Mukden from Khabarovsk, where they were being trained. About a hundred of these pilots have allegedly been integrated into Chinese Communist air divisions. []

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Comment: Neither the often-reported existence of an "International Volunteer Air Force" nor the arrival of Outer Mongolian pilots in Manchuria has been confirmed. These reports do not explain the apparent inconsistency of Outer Mongolian pilots being incorporated into the CCAF instead of the IVAF, if such a multi-national force really exists.

10. Exchange of Chinese rice for Ceylon rubber proposed: [] the Chinese Communist Government, has offered the Ceylon Ministry of Food 100,000 tons of "Manchurian" rice in exchange for rubber of equivalent value. The price of rice -- 154 US dollars a ton at a Manchurian port -- appears high to the Food Ministry, which is nevertheless desirous of negotiating if the offer proves authentic. []

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Comment: Ceylon faces a rice shortage this winter because of reduced imports from Burma, its traditional supplier. If rice suppliers other than China are unable to fulfill Ceylon's requirements, it is believed that the government will favor a rubber-for-rice barter deal with Communist China.

The lack of shipping space has so far prevented more than one rubber shipment from leaving Ceylon for Communist China, and this problem will hamper future deliveries.

11. Peiping ships silver reserves to USSR: [] the People's Bank of China at Peiping shipped 1,500 cases of silver coin and bullion to the USSR in mid-October. The total weight of the silver and cases was about 90 tons. Two previous silver shipments to the USSR in November 1950 and February 1951 totaled 50 tons.

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According to the report, all branch offices of the People's Bank had previously been ordered to send their silver to Peiping for shipment to the USSR. []

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TOP SECRET

TOP SECRET

25X1
Comment: Communist China, which is on a paper money standard, forbids the circulation of silver money and is trying to collect all private hoards of silver. [redacted] in September 1950 indicated that the silver collected throughout the country was being shipped to Peiping.

The total amount of silver reportedly shipped to the USSR in the past year comes to about four million dollars, a small fraction of China's trade with the Russians. The Russians can use the silver for many industrial purposes, e.g., as a substitute for scarce copper in various electrical applications.

12. KOREA. Greater hand-woven cloth production in North Korea urged: Citing the destruction of "precious properties of the people" by UN air raids, a Pyongyang broadcast of 15 November called for the women of North Korea to do their utmost "for the production of hand-woven cloth." In order to stabilize living conditions and prepare for winter, the government appealed to the women to fulfill the first quarter of the 1952 quota by the end of 1951. Some localities have already fulfilled this quota, the broadcast continued, but the "productive efforts for the improved quality of products" must be unceasing. [redacted]

25X1
Comment: It is estimated that approximately 20 million yards of cloth, or roughly two yards per capita, are required to meet the minimal needs of North Korea. Pre-war textile production, amounting to some 10 million yards, has been nearly halved during the course of the war. The tenor and content of this broadcast are further evidence of the worsening civilian supply situation in North Korea.

TOP SECRET

TOP SECRET

SECTION 3 (WESTERN)

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25X6

2. FRANCE-AUSTRIA. France again rejects US Austrian treaty strategy: In an aide-memoire to the American Embassy, the French Foreign Office has once more rejected the strategy proposed by the United States on the Austrian

TOP SECRET

TOP SECRET

treaty question. This new statement repeats previous objections to the abbreviated treaty draft and reverses recent indications of a more receptive French attitude.

The Embassy believes that some concessions will have to be made to obtain French agreement and suggests as a possible compromise strategy (1) resumption of negotiations on the old draft treaty, (2) public announcement in the event of failure that the West is considering a new proposal, and (3) an attempt by the Western delegates to negotiate some instrument equivalent to the abbreviated treaty for presentation to Moscow. [REDACTED]

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Comment: While the French have previously stated their position in categorical terms, it is not certain that their objections to the abbreviated treaty as such are fundamental. Aside from their professed concern for preserving the mechanism of treaty negotiation, the French Government appears to desire only that the West shall move cautiously in its efforts to reach a settlement. The French thus desire to protect the measure of agreement achieved on the old draft treaty, to offer further concessions to the Soviet Union, and if the Russians remain adamant, to denounce publicly Soviet obstructionism and to withdraw the concessions made previously.

3. AUSTRIA. Communist paper asserts Soviet protest on Trieste precludes Austrian treaty: Commenting on the Soviet Government's protest on 17 November against alleged violations of agreements with respect to Trieste by the US, France, and Great Britain, the Austrian Communist paper Der Abend asserts that "Western refusal to carry into effect clauses of the Italian peace treaty regarding Trieste practically prevents the conclusion of the Austrian state treaty." The paper observes that the Soviet Union regards Trieste as a test case of Western adherence to international agreements. [REDACTED]

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Comment: The Soviet protest did not refer specifically to Austria, other than to note alleged military preparations involving Italy, Austria, and Yugoslavia. The USSR has, since May 1950, linked conclusion of the Austrian treaty with implementation of the provisions of the Italian treaty dealing with Trieste.

4. NETHERLANDS. Dutch would be sensitive to US pressure in dispute with Indonesia: In commenting on the crisis in Dutch-Indonesian relations, the US Ambassador in The Hague has stated that any US action favoring Indonesia in the dispute over West New Guinea's sovereignty would be regarded by the Netherlands as undue pressure and would be "most unfortunate" in its repercussions on the Dutch rearmament program. The Dutch resentment against the US role in the achievement of Indonesian independence has only recently

TOP SECRET

TOP SECRET

begun to diminish, and any approach to the Dutch on New Guinea would revive this sentiment and tend to confirm the Netherlands' "worst suspicions."

The Dutch Foreign Minister, who appeared quite pessimistic on the whole subject of Dutch-Indonesian relations, has stated that he "would not be surprised" if Indonesia denounced the union statute next week, in which case he did not know what steps either side could then take. [REDACTED] 25X1

Comment: The Dutch Government, which fell last January as a result of domestic controversy over policy on New Guinea, has consistently suggested a postponement of action on Dutch-Indonesian problems until after the 1952 parliamentary elections.

5. SWITZERLAND. Foreign Minister reviews Swiss foreign policy: Swiss Foreign Minister Max Petitpierre, in a recent review of his country's foreign policy, said that he considers the next three years as particularly difficult ones, but that he does not believe World War III is inevitable. He advocates the continuance of a strong and armed neutrality for the Swiss nation. [REDACTED] 25X1

Comment: The status of Swiss neutrality has been the object of interested scrutiny both within and without Switzerland. [REDACTED]

be, they are, at least for the moment, preserving the form but not the spirit of that policy. The Swiss are as a matter of fact cooperating to a considerable extent in assisting the Western European rearmament effort; but they insist that this be done under Swiss norms. 25X6

Recently, for instance, the Swiss have prevented transshipment of US military equipment through Switzerland, have refused to allow the export of rockets being manufactured in Switzerland for the US on the basis that they were going directly to Korea, and have refused export licenses for military end use items purchased by the NATO commission without prior consultation with the Swiss Government.

The fact that the Communists have waged a persistent campaign to the effect that Switzerland is abandoning its neutrality is making the government more cautious in its overt cooperation with the West.

6. ARGENTINA. Political purge reaches government banks: Approximately forty officials of the Central Bank were reportedly ousted when they refused to sign a pledge to vote for Peron in the 11 November election. Many officials of other government banks have also resigned. [REDACTED] 25X1

TOP SECRET

TOP SECRET

Comment: The circulation of petitions pledging support for Peron has been one of the techniques employed to test the political sympathies of government employees. Those unwilling to make such a pledge are gradually being replaced. The campaign to purge persons of doubtful loyalty from positions of power or influence has also included a shift in the top army command (see OCI Daily Digest, 16 Nov 51), the discharge of a number of army chaplains, and purges within the Peronista Party. Whether or not these efforts to strengthen the government are successful is doubtful; they may actually increase and consolidate opposition to Peron.

7. ECUADOR. Foreign Office requests US assistance in preventing acquisition of arms by revolutionaries: The Ecuadoran Government has information that Carlos Guevara Moreno, Mayor-elect of Guayaquil, and Jose Ricardo Chiriboga Villagomez, Mayor of Quito, have decided to purchase arms in Panama for shipment to Ecuador for revolutionary purposes, and that this is apparently one motive for Guevara Moreno's trip to Panama. The Foreign Office requests the assistance of the US Government in preventing the purchase of such arms.

The Ecuadoran Government is concerned over Guevara Moreno's declaration in Panama that the fall of the Plaza government is imminent and certain. He mentioned that the Mayor of Guayaquil has certain freedom to purchase arms for the traffic police there, and that the Mayor of Quito probably is technically entitled to purchase arms for the municipal police. [REDACTED]

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Comment: Chiriboga Villagomez, who was re-elected Mayor of Quito on 4 November, has been believed to be a co-conspirator of [REDACTED] Guevara Moreno for almost two years.

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TOP SECRET

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TOP SECRET



25X1

23 November 1951

CIA No. 49434-A

Copy No. 49



25X1

TO THE DAILY DIGEST



25X1

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TOP SECRET

25X1

TOP SECRET

SECTION 3 (WESTERN)

- 25X1
1. ITALY. Foreign Office interested in retention of some Western forces in Trieste: A Foreign Office official recently mentioned to the US Ambassador in Rome that any disadvantage accruing to Italy as the result of a settlement with Yugoslavia over Trieste might be balanced by the retention of some troops in the area under another Leghorn arrangement. The Ambassador emphasizes that an announcement that Italian troops would immediately enter the Free Territory of Trieste would undoubtedly help greatly in counteracting Italian popular resentment over loss of territory to Yugoslavia.
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Comment: There have been indications that the Italian Government attaches much importance to a termination of the Allied administration of Trieste and desires Italian forces to be installed in that territory.

TOP SECRET

23 Nov 51